



ANNUAL REPORT 1976

NATIONAL SEA PRODUCTS LIMITED

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COMPARATIVE HIGHLIGHTS

(All amounts in thousands, except as indicated +)

	Twelve months to January 1, 1977	Twelve months to August 31 1975
Net Sales	\$127,066	\$97,324
Net Income (loss)	\$ 1,121	\$ (1,411)
Earnings per average number of Common Shares Outstanding	\$.68	\$ (1.01)
1976 includes extraordinary gain of \$.21		
1975 includes extraordinary loss of \$(.18)		
Dividends paid per Common Share A	—	8.0¢
Dividends paid per Common Share B	—	6.8¢
Cash Flow	\$ 5,367	\$ 1,012
Cash Flow per Common Share	\$ 3.52	\$.61
Working Capital	\$ 9,929	\$10,692
Ratio of Current Assets to Current Liabilities	1.30	1.45
Fixed Assets, net of depreciation	\$ 35,451	\$36,317
Common Shareholders' Equity	\$ 18,575	\$16,835

Valuation Day Price (December 22, 1971)

Common Shares	\$9.50
Preference Shares (5½%)	\$3.25

NATIONAL SEA PRODUCTS LIMITED

HEAD OFFICE — DUKE STREET TOWER
SCOTIA SQUARE
HALIFAX, NOVA SCOTIA



H. P. Connor
Chairman of the Board



W. O. Morrow
President and
Chief Executive Officer

REPORT OF DIRECTORS TO THE SHAREHOLDERS

Your Board of Directors is pleased to submit the Annual Report of the Company, including the financial statements and the report of the Company's auditors, for the sixteen month period ended January, 1, 1977.

In 1975 the Company's fiscal year-end was changed from August 31 to the Saturday closest to December 31. In March 1976, unaudited financial statements covering the four months ended January 3, 1976 were issued to the shareholders. Accompanying this report are audited financial statements for the sixteen months ended January 1, 1977. For comparative purposes unaudited statements for the sixteen months ended January 3, 1976 and the twelve months ended January 1, 1977 are also presented, along with the audited statements for the twelve months ended August 31, 1975. The comparisons in this report relate the twelve months ended January 1, 1977 to the twelve months ended August 31, 1975, and balance sheet comparisons are made to January 3, 1976.

The year 1976 was a difficult one for the Company which is still struggling with the serious problems which have beset the fishing industry for the last two and a half years. Under these circumstances only a modest profit was earned.

SALES

Net sales were a record \$127,066,000 compared to \$97,324,000 in the twelve months to August 31, 1975 — a substantial increase of 31%. This was the largest sales increase in the Company's history. Markets remained firm all year.

FINANCIAL RESULTS

Net income for the year was \$1,121,000 compared to a restated loss of \$1,411,000 in the comparative period. This profit, amounting to a return of only 5.6% on equity, is of course unsatisfactory but is a significant improvement over the last audited year. In spite of excellent landings in the first half of the year, fishing quota restrictions sharply reduced the catch of our trawler fleet in the latter months of the year, thus substantially increasing unit costs, not only in the fleet but also in the plants.

Our share of affiliated Companies' net earnings, amounting to a loss of \$87,000 compared to a profit of \$710,000 in 1975, was disappointing. This result was largely because of a much less profitable year in the Bermuda Insurance Companies caused by less favourable underwriting results, reduced investment earnings, and the high cost of writing a substantial amount of new business.

It is important to note that most of the Company's profit in 1976 was earned outside our groundfish operations which has always been the Company's major activity. The United States subsidiaries, in particular, had a very good year.

EARNINGS AND DIVIDENDS

Net earnings per share, after providing for preferred dividends, amounted to 68 cents a share compared to a loss of \$1.01 a share in the previous period. Cash flow amounted to \$3.52 a share compared to 61¢.

No dividends were paid on the common shares in 1976 but regular dividends were paid on the preferred shares.

CAPITAL EXPENDITURES AND DEPRECIATION

Capital Expenditures during the last twelve months amounted to \$5,993,000. Included in this figure was \$2,337,500 for a new trawler under construction and the balance was spent completing other trawlers and improving and expanding existing facilities throughout the Company. The Company's vessels and plants have been maintained in a state of good and efficient condition.

Depreciation of fixed assets amounted to \$4,023,000 compared to \$3,752,000 for the last twelve month period.

FINANCIAL POSITION

After providing \$2,834,000 for current instalment repayments, our long term indebtedness totalled \$23,375,000.

It will be noted that the current bank indebtedness of \$19,479,000 is considerably higher than the amount of \$12,178,000 in the previous year. This is largely the result of the high inventories of marketable products and supplies which, though larger than normal, should be a valuable asset in 1977, considering the restrictive quotas set for next year, and the strong demand for our products.

We are pleased to report that after nearly ten years of negotiations, the Company's income tax assessment case has been settled. The details, which are somewhat complicated, are explained in Note 8 to the financial statements, but the net result is that a tax assessment which would have resulted in a charge of over \$5,000,000 against previous earnings has been settled for approximately \$1,500,000.

GOVERNMENT ASSISTANCE PROGRAMS

The Government Assistance Programs which started in 1974 were continued through 1976 on a somewhat lower scale. Our Company's share in these programs in 1976 was \$3,823,000 net of amounts paid directly to the fishermen. In fiscal 1975 the sum was \$4,170,000.

The Department of Fisheries has developed a fishing plan for 1977 which is designed to conserve and rebuild the fish stocks off the east coast of Canada. The short term effect of such a program will create operating difficulties for the trawler fleet. It is essential, therefore, that these Government Assistance Programs remain in existence to ensure that the industry remains viable until such time as the stocks are rebuilt and the catch rates of our trawlers improve.

PROFIT SHARING FUND

It is a pleasure to report that the Company has been able to make a contribution of \$201,000 to the Employees' Savings and Profit Sharing Fund. The loss in the year ended August 31, 1975, made it impossible to make any payment at that time, but \$129,000 was contributed from the profit earned in the four month fiscal period ended January 3, 1976.

OPERATIONS

Fish purchases of 219,705,000 pounds were the second highest of any year in the Company's history. Compared with the preceding twelve months, they followed an unusual pattern, being 87% ahead of the first quarter and dropping steadily so that they were only 15% ahead at the end of the year. Landings in the fourth quarter of 1976 were 19% below those of the same period a year ago.

The comparative increases are misleading however, because from January 1st, 1975 until the end of March 1975, six of our most productive trawlers in Newfoundland were on strike. Furthermore, the closing of the Gulf of St. Lawrence and other areas, to certain fisheries during the year, sharply cut down on potential catches. The net result was that trawler caught groundfish, as it is called, is not nearly as plentiful as it would have otherwise been. With our productivity thus reduced, our trawler fleet lost heavily. Reduced landings not only affect the fleet, but reduce throughput in the plants, thereby increasing unit costs.

The conversion of one of our smaller side trawlers, the Cape Dauphin, to a scalloper about twelve months ago, was a great success and this year we converted one of her sister ships, the Cape Aspy, in the same way. The Company owns a number of side trawlers which are only about half through their useful lives but which are being gradually outdated in the groundfishery. The conversion of these vessels to scallopers will extend their productive lives to the full extent and will obviate the necessity of building new scallopers at today's almost prohibitive costs. The present scallop fleet is aging and will require replacement over the next four or five years.

During the next several years, while the fish stocks are being rebuilt, no new additions to the fleet are likely to be permitted, other than for replacement. However, this is the time to plan for the future, as it takes about two years to design and build a modern fishing trawler. Both the industry and government must commence to plan for the future as there is not the capacity in the existing Canadian fleet to harvest the potential within the Canadian 200 mile limit.

The Company's U.S.A. operations had a very good year and earned a major portion of our net profit. This was in strong contrast to 1975, when they suffered heavy losses. The plants at both Tampa and Rockland are being expanded and on completion of the work at the end of 1977, will be in a position to increase volume and decrease costs.

The contribution from By-Products showed an improvement during the year. This was the result of firmer prices for fish meal, although fish oil prices weakened during the year.

The Company engaged in several research fishing ventures during the year, with the Company and the Federal Government both sharing the costs. Two of our modern stern trawlers made several trips as far north as Eastern Greenland. We were hoping that this would have opened up new fishing grounds, but the results were disappointing from an economic point of view. Additional trips were made to other northern areas to assess the fish stocks and these results were somewhat more encouraging.

INDUSTRIAL RELATIONS

Nineteen seventy-six was a year of relative industrial peace. However, there was uneasiness arising out of the uncertainty of the Anti-Inflation Regulations as applied to all hourly workers under Collective Agreements. Contracts signed in early 1976 were eventually approved by the A.I.B. with only slight rollbacks in some cases. There was a brief wildcat strike at Lunenburg, when the Company put in regulations designed to improve productivity. This issue was later settled with the agreement of both the Company and the Union.

At the end of the year, Collective Agreements with our Nova Scotia plant employees, as well as with the Fleet, and the Plants in Newfoundland, were under negotiation. At the time of writing this report, settlement has been reached with plant employees in Nova Scotia, but still has not been reached with plant workers in Newfoundland. A two year agreement was reached with trawler crews in Newfoundland, after a costly strike resulting in loss of production for St. John's and Burgeo in the month of January, 1977.

DIRECTORS

In February 1976, Mr. David W. Smith, a former executive member of the Company and a director since 1962, resigned from the Board.

OUTLOOK

As a result of overfishing since the early fifties, the fish stocks off the east coast of Canada have become seriously depleted. Fishing limitations

such as quotas, closed areas, reduction of the number of vessels participating, have been made necessary in recent years through the International Commission for Northwest Atlantic Fisheries (I.C.N.A.F.). The company endorses wholeheartedly the fact that Canada has declared the 200 mile economic zone and with proper management fish stocks should start to increase. Improvement in the catches in the faster maturing species such as cod and haddock should commence within a few years, but the slower maturing species will take much longer. The supply situation in the short term will be at the best, a static one, but the long term future is much brighter.

Wise management is essential and both the Government and Industry will have to be resourceful and co-operate in achieving our management goals. Increased availability will make it possible to increase our catches with the existing Canadian fleet, and at the same time support an even larger fleet. We, as a company, expect to share in the benefits of a much richer Canadian resource.

Market prospects for the year ahead indicate a continuation of firm prices. Costs, however, will be difficult to control, especially the cost of energy of which our industry is a large user.

Forecasts indicate that the United States dollar will be at a higher premium in 1977, which will have a beneficial effect on our earnings, as a large percentage of our Canadian production is sold in the U.S.A. The results of our U.S. and Bermudian operations are translated into Canadian currency, so a higher U.S. rate would further add to our profitability.

IN APPRECIATION

In many respects 1976 was not an easy year for the Company and its over 4,000 employees and our many fishermen. Despite the frustrations of A.I.B. Regulations, fish quota restrictions, and other problems, our fishermen, plant workers and office employees have performed admirably. The strength and vitality of the Company rests on the skills, resourcefulness and plain hard work of these men and women. The degree to which these qualities were evident last year gives us reason to be confident about the future.



W. O. MORROW
PRESIDENT
AND CHIEF EXECUTIVE OFFICER

Halifax, Nova Scotia
February 28, 1977

NATIONAL SEA PRODUCTS LIMITED

and its subsidiary companies

Statement of Consolidated Income

(in thousands of dollars)

for the sixteen month period ended January 1, 1977

	Sixteen months to January 1, 1977	Sixteen months to January 3, 1976 (unaudited)	Twelve months to January 1, 1977 (unaudited)	Twelve months to August 31, 1975
Net sales	\$164,429	\$134,687	\$127,066	\$97,324
Cost of sales (note 7)	138,138	116,015	107,350	85,227
	<u>26,291</u>	<u>18,672</u>	<u>19,716</u>	<u>12,097</u>
Selling, general and administrative expenses	13,271	10,695	10,340	7,764
Interest — on short-term debt	1,070	1,234	835	999
— on long-term debt	3,277	3,150	2,422	2,295
Provision for depreciation	5,349	5,078	4,023	3,752
	<u>22,967</u>	<u>20,157</u>	<u>17,620</u>	<u>14,810</u>
Income (loss) from operations before the following	3,324	(1,485)	2,096	(2,713)
Share of affiliated companies net earnings (loss)	(23)	774	(87)	710
	<u>3,301</u>	<u>(711)</u>	<u>2,009</u>	<u>(2,003)</u>
Contribution to Employees' Savings & Profit Sharing Retirement Fund (note 11)	330	129	201	—
Income (loss) before income taxes and extraordinary items	2,971	(840)	1,808	(2,003)
Provision for (recovery of) income taxes (note 8)	1,481	(386)	1,004	(863)
Income (loss) before extraordinary items	1,490	(454)	804	(1,140)
Extraordinary gains (losses) (note 9)	410	(178)	317	(271)
Net income (loss) for period	<u>\$ 1,900</u>	<u>\$ (632)</u>	<u>\$ 1,121</u>	<u>\$(1,411)</u>
Earnings per common share:				
Income (loss) before extraordinary items	<u>\$.89</u>	<u>\$(.41)</u>	<u>\$.47</u>	<u>\$(.83)</u>
Net income (loss) for the period	<u>\$1.16</u>	<u>\$(.53)</u>	<u>\$.68</u>	<u>\$(1.01)</u>
Cash flow per common share (note 10)	<u>\$4.99</u>	<u>\$2.08</u>	<u>\$3.52</u>	<u>\$.61</u>

See accompanying notes to financial statements

NATIONAL SEA PRODUCTS LIMITED

and its subsidiary companies

Statement of Consolidated Retained Earnings

(in thousands of dollars)

for the sixteen month period ended January 1, 1977

	Sixteen months to January 1, 1977	Sixteen months to January 3, 1976 (unaudited)	Twelve months to January 1, 1977 (unaudited)	Twelve months to August 31, 1975
Balance, beginning of period:				
As previously reported	\$11,838	\$13,362	\$12,564	\$13,362
Adjustment of prior years' income taxes (note 8)	(1,586)	(1,473)	(1,586)	(1,473)
As restated	10,252	11,889	10,978	11,889
Add (deduct) net income (loss) for the period	1,900	(632)	1,121	(1,411)
	12,152	11,257	12,099	10,478
Dividends:				
Preference	159	159	106	106
Common	—	120	—	120
	159	279	106	226
Balance, end of period	<u>\$11,993</u>	<u>\$10,978</u>	<u>\$11,993</u>	<u>\$10,252</u>

See accompanying notes to financial statements

NATIONAL SEA PRODUCTS LIMITED

and its subsidiary companies

Statement of Changes in Consolidated Financial Position

(in thousands of dollars)

for the sixteen month period ended January 1, 1977

Source of Funds

	Sixteen months to January 1, 1977	Sixteen months to January 3, 1976 (unaudited)	Twelve months to January 1, 1977 (unaudited)	Twelve months to August 31, 1975
Net income (loss) for the period	\$1,900	\$ (632)	\$1,121	\$(1,411)
Add charges not represented by cash outlay during the period —				
Depreciation	5,349	5,078	4,023	3,752
Portion of tax provision (recovery) applicable to future years	368	(1,184)	223	(1,329)
Total funds provided from operations and extra-ordinary items	7,617	3,262	5,367	1,012
Increase in long-term debt (other than mortgages)	—	147	—	147
Disposal of fixed assets	303	167	269	133
Decrease in other assets	56	410	—	353
	7,976	3,986	5,636	1,645
On deconsolidation of a former subsidiary company (note 2):				
Fixed assets	2,337		2,337	
Less:				
Reduction in long-term debt (excluding current portion of \$255)	517		517	
Increase in investment in shares	1,007		1,007	
Increase in other assets	400		400	
	1,924		1,924	
Net increase in working capital	413		413	
Total funds provided	8,389	3,986	6,049	1,645

Application of Funds

	Sixteen months to January 1, 1977	Sixteen Months to January 3, 1976 (unaudited)	Twelve months to January 1, 1977 (unaudited)	Twelve months to August 31, 1975
Addition to fixed assets:				
New trawlers	\$ 2,723	\$ 3,468	\$ 2,368	\$ 3,113
Other (net of government grants of \$96,000 in the twelve months ended August 31, 1975)	4,400	3,933	3,625	3,158
	7,123	7,401	5,993	6,271
Less mortgage proceeds	2,561	3,028	2,561	3,028
	4,562	4,373	3,432	3,243
Instalments on long-term debt due within one year	4,157	3,712	3,117	2,671
Dividends paid	159	279	106	226
Increase in other assets	274	—	274	—
Total funds applied	9,152	8,364	6,929	6,140
Decrease in working capital	(763)	(4,378)	(880)	(4,495)
Working capital, beginning of period	10,692	15,187	10,809	15,187
Working capital, end of period	\$ 9,929	\$10,809	\$ 9,929	\$10,692

See accompanying notes to financial statements

NATIONAL SEA PRODUCTS

(Incorporated under the laws of the State of New York)

and its subsidiaries

Consolidated Balance Sheet

(in thousands of dollars)

January 3, 1976

ASSETS

	January 1, 1977	January 3, 1976 (unaudited)
Current:		
Cash	\$ 532	\$ 608
Accounts receivable — trade	10,565	9,021
Accounts receivable — fishermen, government grants and other	3,972	4,374
Income taxes recoverable (note 8)	1,591	2,272
Inventories of marketable products and supplies (note 3)	26,192	18,979
Prepaid expenses	386	1,403
Total current assets	43,238	36,657
Fixed (note 4)	35,451	36,087
Other:		
Investments in shares of affiliates (note 2)	4,825	3,766
Advances to affiliates	650	—
Sundry investments and other assets	256	284
	5,731	4,050
	\$84,420	\$76,794

On behalf of the Board:

H. P. Connor, Director

W. O. Morrow, Director

See accompanying notes

PRODUCTS LIMITED

(In the Province of Nova Scotia)

and its subsidiaries

Balance Sheet

(in thousands of dollars)

1977

LIABILITIES AND SHAREHOLDERS' EQUITY

	January 1, 1977	January 3, 1976 (unaudited)
Current:		
Bank indebtedness (secured)	\$19,479	\$12,178
Notes payable	—	126
Accounts payable and accrued charges	9,671	9,112
Income taxes payable	1,325	1,151
Instalments on long-term debt due within one year	2,834	3,281
Total current liabilities	33,309	25,848
Long-term debt (note 5)	23,375	24,448
Deferred income taxes (note 8)	7,232	7,009
Shareholders' equity (note 6):		
Capital —		
385,875 preference shares	1,929	1,929
1,495,231 common shares	4,846	4,846
	6,775	6,775
Contributed surplus	1,736	1,736
Retained earnings	11,993	10,978
	20,504	19,489
	\$84,420	\$76,794

NATIONAL SEA PRODUCTS LIMITED

and its subsidiary companies

Notes to Consolidated Financial Statements

January 1, 1977

1. Summary of significant accounting policies

(a) Basis of consolidation

The accompanying financial statements consolidate the accounts of the Company and all its subsidiaries.

(b) Exchange translation

The financial statements of foreign subsidiaries have been translated into Canadian dollars as follows: current assets and current liabilities at exchange rates prevailing at the end of the period; non-current assets, long-term debt and depreciation provisions on the basis of rates in effect at the date of acquisition; income and expenses (other than depreciation provisions) at average exchange rates prevailing during the period. Translation adjustments are included in consolidated income.

(c) Inventory valuation

Inventories are valued at the lower of cost and net realizable value with cost determined principally on a FIFO (first-in first-out) basis.

A United States subsidiary values a substantial portion of its inventory on the LIFO (last-in first-out) basis of determining cost. This method is allowable for income tax purposes in the United States.

(d) Fixed assets

Fixed assets are carried at cost. Depreciation of fixed assets is provided on the straight-line basis at the following rates per annum:

Brick buildings	4%
Wooden buildings and wharves	5%
Machinery and equipment	5% and 10%
Trawlers	8% for 5 years and 6% for next 10 years
Other	10% and 25%

(e) Investments in shares of affiliates

These investments represent companies in which National Sea Products Limited has a substantial interest and are carried at National's equity in their net assets; current income is recognized on the basis of National's share of their net earnings.

2. Basis of Presentation

(a) By Shareholders' Resolution dated December 10, 1975 the Company changed its fiscal year end from August 31 to the Saturday nearest to December 31.

In accordance with the Shareholders' Resolution, the Statements of Consolidated Retained Earnings, Income and Changes in Financial Position are presented for the twelve months ended January 1, 1977 and, for comparative purposes, include the results for the twelve months ended August 31, 1975. In order to complete the reporting for the intervening periods, statements for the sixteen months ended January 1, 1977 and January 3, 1976 are also presented.

(b) On March 30, 1976 the Company, through Burgeo Leasing Limited, ("Burgeo"), entered into an agreement with the Province of Newfoundland, for the construction of a new fish plant to be built on Burgeo's land at Burgeo, Newfoundland. The plant is being financed by the Province through long-term debt and the purchase of sufficient shares to give it a 50% interest in Burgeo. The Company has an option to acquire the Province's 50% interest, 8 years following the completion of the plant. As a result of this agreement, Burgeo is no longer a wholly owned subsidiary and has been deconsolidated. The Company's investment in Burgeo is now accounted for on an equity basis.

3. Inventories

Inventories consist of:

	January 1, 1977	January 3, 1976
Marketable products and supplies	\$27,087,000	(unaudited) \$19,705,000
Allowance to state inventories of a United States subsidiary at LIFO cost	(895,000)	(726,000)
	<u>\$26,192,000</u>	<u>\$18,979,000</u>

4. Fixed assets

Major categories of fixed assets are:

	January 1, 1977	January 3, 1976 (unaudited)
Land	\$ 1,375,353	\$ 1,361,126
Buildings, wharves, machinery and other	35,775,077	36,419,461
Trawlers	28,608,505	29,201,870
	<u>65,758,935</u>	<u>66,982,457</u>
Less accumulated depreciation:		
Buildings, wharves, machinery and other	19,091,622	18,394,290
Trawlers	13,554,313	12,501,326
	<u>32,645,935</u>	<u>30,895,616</u>
	<u>33,113,000</u>	<u>36,086,841</u>
Trawlers under construction	2,337,500	—
	<u>\$35,450,500</u>	<u>\$36,086,841</u>

5. Long-term debt

Particulars of long-term debt are:

Secured —

	January 1, 1977	January 3, 1976 (unaudited)
First mortgage and collateral trust serial bonds:		
6 $\frac{1}{2}$ % Series "A" due 1977-1979	\$ 300,000	\$ 400,000
7 $\frac{1}{2}$ % Series "B" due 1977	500,000	1,000,000
	<u>800,000</u>	<u>1,400,000</u>
Trawler mortgage loans:		
Other loans at rates from 4 $\frac{1}{2}$ % to 6 $\frac{1}{2}$ %, maturing from 1976-1982	672,648	919,272
6 $\frac{1}{2}$ % due semi-annually to 1983	1,173,010	1,749,153
6 $\frac{1}{2}$ % due semi-annually to 1984	357,654	—
5% due semi-annually to 1987	283,948	368,619
9% due semi-annually to 1989	879,480	952,770
8 $\frac{5}{8}$ % due semi-annually to 1991	3,922,843	4,196,933
10% due semi-annually to 1993	2,337,500	—
9% due semi-annually to 1994	2,597,726	2,463,570
	<u>12,224,809</u>	<u>10,650,317</u>
Other:		
Bank indebtedness bearing interest at 1 $\frac{1}{2}$ % above the bank prime lending rate, due 1977 to 1980, secured by a floating charge on the Company's assets	9,000,000	10,000,000
4% mortgage due annually to 1976	—	47,727
6% mortgage due semi-annually to 1976	—	80,000
*Mortgage due annually to 1977 bearing interest at 1% above bank prime lending rate	—	550,000
8 $\frac{1}{2}$ % mortgage due semi-annually to 1984	894,419	976,819
8% mortgage due semi-annually to 1988	1,130,000	1,225,000
10 $\frac{1}{2}$ % mortgage due semi-annually to 1991	607,500	652,500
*7.15% mortgage due annually to 1996	—	222,369
	<u>11,631,919</u>	<u>13,754,415</u>

Unsecured —

6 $\frac{3}{4}$ % Subordinated Sinking Fund Debentures Series "A" due 1981	\$ 2,035,000	\$ 2,285,000
Less debentures held for Sinking Fund at par	483,000	360,000
	<u>1,552,000</u>	<u>1,925,000</u>
	<u>26,208,728</u>	<u>27,729,732</u>
Less instalments due within one year included in current liabilities	2,834,048	3,281,319
	<u>\$23,374,680</u>	<u>\$24,448,413</u>

*These amounts have been eliminated upon deconsolidation of a former subsidiary company (see note 2).

Principal and sinking fund payments required in each of the next five fiscal years:

1977	\$2,800,000
1978	2,500,000
1979	8,600,000
1980	1,500,000
1981	2,300,000

6. Shareholders' equity
 (a) Details of share capital are:

	Authorized Shares	Issued and Outstanding			
		January 1, 1977 Shares	\$	January 3, 1976 Shares	\$
5½% Class C cumulative redeemable convertible preference shares of the par value of \$5 each, redeemable at par	600,000	345,604	\$1,728,020	341,910	\$1,709,550
5½% Class D cumulative redeemable convertible preference shares of the par value of \$5 each, redeemable at par	400,000	40,271	201,355	43,965	219,825
Subordinated redeemable preference shares of the par value of \$1 each, redeemable at par	1,025,546	—	—	—	—
Class A convertible common shares without nominal or par value	3,000,000	1,293,037	4,190,869	1,330,821	4,313,331
Class B convertible common shares without nominal or par value	3,000,000	202,194	655,332	164,410	532,870
			<u>\$6,775,576</u>		<u>\$6,775,576</u>

The Class A and Class B convertible common shares are inter-convertible at the option of the shareholder on a one-for-one basis and rank equally with respect to dividends and in all other respects. Similarly, the Class C and Class D convertible preference shares are inter-convertible at the option of the shareholder on a one-for-one basis and rank equally with respect to dividends and in all other respects. Provision is made whereby dividends on the Class B convertible common and Class D convertible preference shares may be paid in the form of tax deferred dividends; in this event, the conditions attaching to the Class B convertible common and Class D convertible preference shares provide that a suitable deduction from the dividends be made for taxes, if any, payable by the Company with respect to such dividends.

- (b) Trust Deed restrictions

The Trust Deed securing the First Mortgage and Collateral Trust Serial Bonds and the Trust Indenture securing the 6¾% Subordinated Sinking Fund Debentures Series "A" contain certain restrictions including, among others, restrictions as to payment of dividends, reduction of capital, and retirement of subordinated debentures in the event of consolidated working capital (without deducting the portion of long-term debt due within one year) being less than \$6,000,000 or consolidated retained earnings being less than \$5,000,000.

7. Cost of Sales

During the sixteen months to January 1, 1977 the Company received \$5,780,000 from the Federal Government, net of amounts paid to fishermen, in respect of various assistance programs. In the sixteen months to January 3, 1976, the twelve months to January 1, 1977, and the twelve months to August 31, 1975 these amounts were \$6,127,000, \$3,823,000 and \$4,170,000 respectively. These amounts have been credited to cost of sales.

8. Income Taxes

- (a) Losses of a U.S. subsidiary of \$311,000 are available to be applied to reduce future taxable income in computing the provision for income taxes. The resulting reduction in the provision for income taxes has not been reflected in these consolidated financial statements. These losses will be available until 1979.
- (b) As noted in previous years, the Department of National Revenue had issued Notices of Re-assessment for the period 1966 to 1972 inclusive.

If each of the various principles on which the re-assessments were based was upheld in its entirety, the effect would have been an increase in the provision for income taxes and a reduction in net incomes for periods to August 31, 1974 and prior. This would have reduced accumulated retained earnings to August 31, 1974 by \$4,500,000.

During the year the Company was substantially successful in the settlement of the various issues under which the Department of National Revenue had issued the Notices of Re-assessment. The net effect of this settlement was a decrease in Retained Earnings as at August 31, 1974 of \$1,473,000 (as at August 31, 1975 of \$1,586,000). As previously reported, certain amounts had to be paid on the assessments in prior years. Refunds relating to these amounts and other taxes paid have been received or recorded as recoverable in the amount of \$2,184,000 as at January 1, 1977. Also because of the change in the availability of capital cost allowances, an additional amount of \$850,000 has become payable with respect to the 1973 year.

The net result of all the above transactions was an increase in deferred income taxes as at August 31, 1974 of \$2,807,000 (as at August 31, 1975 of \$2,920,000).

9. Extraordinary Gains (Losses)

Extraordinary gains (losses) include:

	Sixteen months to January 1, 1977	Sixteen months to January 3, 1976 (unaudited)	Twelve months to January 1, 1977 (unaudited)	Twelve months to August 31, 1975
Gain on disposal of fixed assets, net of income taxes of Nil for the sixteen months and twelve months ended January 1, 1977 (\$37,000 for the sixteen months to January 3, 1976 and the twelve months to August 31, 1975)	\$ 74,171	\$ 53,226	\$ 74,171	\$ 53,226
Loss on conversion of U.S. term bank loan to Canadian term loan, net of income taxes of \$138,000	—	(200,037)	—	(200,037)
Loss upon closure of groundfish operation in Rockland, Maine	—	(187,340)	—	(187,340)
Recovery of U.S. income taxes upon application of prior years' losses	335,272	155,740	243,072	63,540
	<u>\$409,443</u>	<u>\$(178,411)</u>	<u>\$317,243</u>	<u>\$(270,611)</u>

10. Cash flow per common share

Cash flow per common share is calculated based on the total funds provided from operations and extraordinary items less preferred dividends, divided by the weighted average number of common shares outstanding during the year.

11. Commitments

- (a) Rentals aggregating approximately \$250,000 per annum through 1993 are payable under long-term leases for facilities in Lunenburg.
- (b) The Company has approved an Executive and Management Pension Plan for personnel designated by the Company. Estimated past service costs of \$400,000 are being funded and amortized by the Company in equal annual amounts to 1990.
- (c) Employees' Savings and Profit Sharing Retirement Fund
Employees of the Company meeting specified eligibility requirements may participate in a Trustee Savings and Profit Sharing Plan covering employees of the Company and its subsidiaries. Participation in the Plan is voluntary and requires a contribution from the employee. The Company contributes an amount equal to 10% of its consolidated profit before income taxes.

12. Contingency

Guarantees by the Company of indebtedness of suppliers (including fishermen's notes and mortgages) amount to approximately \$197,000.

13. Statutory information

Remuneration of Directors and senior officers was \$537,000 for the sixteen months to January 1, 1977, \$405,000 for the twelve months to January 1, 1977.

14. Anti-inflation program

Under the Federal Government's anti-inflation program (presently scheduled to be in force until December 31, 1978) the Company is subject to mandatory compliance with legislation which controls prices, profit margins, employee compensation and shareholder dividends.

Management is of the opinion that the Company is in compliance with the requirements of the anti-inflation legislation.

15. Comparative statements

Certain of the figures on the statements of consolidated income for the twelve months ended August 31, 1975 have been regrouped for comparative purposes.

Clarkson, Gordon & Co.

Chartered Accountants

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Halifax, Nova Scotia B3J 1X3

St. John's Halifax Saint John Quebec Montreal
Ottawa Toronto Hamilton Kitchener London
Windsor Thunder Bay Winnipeg Regina Calgary
Edmonton Vancouver Victoria

Arthur Young, Clarkson, Gordon & Co.
United States—Brazil

Telephone (902) 429-4080

To the Shareholders of
National Sea Products Limited:

We have examined the consolidated balance sheet as at January 1, 1977 and the consolidated statements of income, retained earnings and changes in financial position for the sixteen month period from September 1, 1975 to January 1, 1977. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at January 1, 1977 and the results of its operations and the changes in its financial position for the sixteen months then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the settlement of the re-assessments of income tax described in note 8 to the financial statements, on a basis consistent with that of the preceding period.

Clarkson, Gordon & Co.

Chartered Accountants

Halifax, Canada
February 28, 1977

NATIONAL SEA PRODUCTS LIMITED

and its subsidiary companies

Comparative Financial Information for 1973-76

(all amounts are expressed in thousands, except as indicated +)

	1976 (unaudited)	4 months 1975 (unaudited)	1975	1974	1973
Working Capital	\$ 9,929	10,809	10,692	15,187	11,373
Plant, Equipment, Trawlers and other Fixed Assets after Depreciation	\$ 35,451	36,087	36,317	33,931	28,484
Total Assets	\$ 84,420	76,794	74,807	75,274	62,620
Accumulated Deferred Income Taxes	\$ 7,232	7,009	6,864	8,193	7,878
Long Term Debt	\$ 23,375	24,448	25,488	24,985	15,519
Shareholders' Equity:					
Preference Shares	\$ 1,929	1,929	1,929	1,929	1,929
Common Shares	\$ 4,846	4,846	4,846	4,846	4,812
Contributed Surplus	\$ 1,736	1,736	1,736	1,736	1,138
Retained Earnings	\$ 11,993	10,978	10,252	11,889	12,855
Total Shareholders' Equity	\$ 20,504	19,489	18,763	20,400	20,734
Additions to Plant, Equipment, Trawlers and other Fixed Assets during the year	\$ 5,993	1,130	6,271	6,194	7,667
Fish Landings (lbs)	220,000	69,000	178,000	217,000	242,000
Herring Purchased for Reduction (lbs)	—	2,000	4,000	5,000	17,000
Net Sales	\$ 127,066	37,363	97,324	90,069	89,409
Depreciation	\$ 4,023	1,326	3,752	3,174	2,903
Income Taxes	\$ 1,004	477	(863)	15	3,218
Net Income	\$ 1,121	779	(1,411)	194	3,706
Dividends on Preference Shares	\$ 106	53	106	106	184
Dividends on Common Shares	\$ —	—	120	1,054	702
Earnings Retained in Business for Expansion	\$ 1,015	726	(1,637)	(966)	2,820
*Earnings per average number of Common Shares					
Outstanding	+ \$.68	\$.48	\$(1.01)	\$.06	\$2.35
Common Dividends paid per share — Class A	+ —	—	8.0¢	70.5¢	47¢
Common Dividends paid per share — Class B	+ —	—	6.8¢	59.9¢	39.9¢
Earnings as a Percentage of Sales	+ 0.9%	2.1%	(1.4)%	0.2%	4.1%
Cash Flow per average number of Common Shares					
Outstanding	+ \$3.52	\$1.47	\$.61	\$2.32	\$6.49
Number of Common Shares Outstanding at Year End	+1,495,231	1,495,231	1,495,231	1,495,231	1,493,293

By Shareholders' Resolution dated December 10, 1975 the Company changed its fiscal year end from August 31 to the Saturday nearest to December 31.

*1976 includes extraordinary gain of \$.21 per common share

1975 (4 months) includes extraordinary gain of \$.06 per common share

1975 includes extraordinary loss of \$(-.18) per common share

CORPORATE DIRECTORY

BOARD OF DIRECTORS

*H. P. CONNOR, Halifax, N.S.
FRANK M. COVERT, Q.C., Halifax, N.S.
†J. B. ESTEY, Loggieville, N.B.
*†C. R. MACFADDEN, Halifax, N.S.
*J. B. MORROW, Lunenburg, N.S.
*†W. O. MORROW, Halifax, N.S.
C. C. PRATT, St. John's, Nfld.
†W. H. RICHARDSON, Halifax, N.S.
*H. B. RHUDE, Q.C., Halifax, N.S.
The Hon. H. J. ROBICHAUD, Fredericton, N.B.
†F. W. RUSSELL, St. John's, Nfld.
P. J. SMITH, New Minas, N.S.

*Member of the Executive Committee

†Member of the Audit Committee

SUBSIDIARY COMPANIES

NATIONAL SEA PRODUCTS (U.S.) CORP. LIMITED
Tampa, Florida

NATIONAL SEA PRODUCTS INCORPORATED
Rockland, Me.

NATLAKE LIMITED
Burgeon, Nfld.

McDERMAID AGENCIES LIMITED
Halifax, N.S.

SCOTIA TRAWLER EQUIPMENT LIMITED
Lunenburg, N.S.

MAJOR AFFILIATED COMPANIES

PENVILLE LIMITED
Cambridge Insurance Limited
Canadian International Insurance Limited
Hamilton, Bermuda

BURGEON LEASING LIMITED
Burgeon, Nfld.

OFFICERS AND SENIOR MANAGEMENT

H. P. CONNOR	Chairman of the Board Chairman of Executive Committee
W. O. MORROW	President and Chief Executive Officer
C. R. MacFADDEN	Vice President — Finance and Treasurer
J. B. MORROW	Vice President — Production
I. H. LANGLANDS	Vice President — Development
P. R. SMITH	Vice President — Marketing
F. D. McGEE	Secretary and Company Solicitor
S. J. CAMPBELL	Assistant Secretary

I. C. McDERMAID	President, McDermaid Agencies Limited
D. J. MOSHER	President, Scotia Trawler Equipment Limited
M. L. PITMAN	Comptroller
J. H. RIGG	Managing Director, Penville Limited and Subsidiary Companies
K. H. RITCEY	President, National Sea Products (U.S.) Corp. Limited and National Sea Products Inc.
J. A. TUPPER	General Manager — Groundfish Operations

AUDITORS:

Clarkson, Gordon & Co.
Chartered Accountants

TRANSFER AGENTS:

Common Shares
Montreal Trust Company

Preference Shares
The Company, Secretary's Office
P.O. Box 2130, Halifax, N.S.

BANKERS:

The Royal Bank of Canada
The Bank of Nova Scotia



National Sea Products Limited
Halifax, Nova Scotia